

Message Text

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PAGE 01 CAIRO 12097 081624Z

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SUBJECT: FINANCING FOR EGYPTIAN BALANCE OF PAYMENTS

DEFICIT - GODE COMMERCIAL GUARANTEE AND LOAN

REF (A) CAIRO 11336: (B) STATE 212497

SUMMARY. GOOD NEWS - EGYPT HAS SUCCEEDED IN OBTAINING
GODE \$250 MILLION LOAN AS WELL AS \$250 MILLION COMMERCIAL
LOAN GUARANTEE. END SUMMARY.

1. AS NOTED REFTEL, MINFIN ABU ISMAIL'S REQUEST TO
CHASE AND CITIBANK FOR COMMERCIAL LOAN OF \$250
MILLION TO BE GUARANTEED BY GODE RECEIVED SKEPTICAL
REACTION AT LEAST FROM CHASE AREA REP RICHEY.
LATTER HAD HAD PREVIOUS CONVERSATIONS WITH SAUDI
FINANCE MINISTER ABA AL-KHAIL IN WHICH SAUDI
MINISTER REPEATEDLY DISCOURAGED IDEA OF DIRECT
GODE PARTICIPATION IN BOP FINANCING. (ACCORDING
TO RICHEY, HE DISCUSSED SUBJECT WITH ABA AL-KHAIL
INDEPENDENTLY SOME THREE MONTHS AGO, SHORTLY AFTER
GODE WAS SET UP.) RICHEY HAD DETERMINED, THEREFORE,
NOT TO SUGGEST COURSE OF ACTION TO NEW YORK UNTIL
HE WAS ABLE TO TALK AGAIN WITH ABA AL-KHAIL
PERSONALLY. HE HAS NOW RETURNED FROM TRIP TO SAUDI
ARABIA UNDERTAKEN FOR THAT PURPOSE.

2. EMBOFFS MET RICHEY SEPTEMBER 8 FOR BRIEFING ON
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PAGE 02 CAIRO 12097 081624Z

RESULTS OF HIS VISIT AND DEVELOPMENTS RE CHASE

FINANCING FOR EGYPTIAN DEFICIT. IN SAUDI ARABIA, RICHEY TO HIS SURPRISE RECEIVED ASSURANCES FROM ABA AL-KHAIL THAT GODE IS NOW PREPARED TO OFFER GUARANTEE FOR \$250 MILLION COMMERCIAL BANK LOAN TO EGYPT, AS ORIGINALLY REQUESTED BY MINISTER ABU ISMAIL. ABA AL-KHAIL ALSO TOLD RICHEY THAT GODE IS PREPARED TO OFFER ADDITIONAL \$250 MILLION LOAN DIRECTLY TO GOVERNMENT OF EGYPT THIS YEAR. BASED UPON ABA AL-KHAIL'S ASSURANCES OF GODE GUARANTEE, RICHEY HAS REQUESTED CHASE APPROVAL TO BEGIN WORKING UP \$250 MILLION LOAN, INCLUDING, AT ABA AL-KHAIL'S REQUEST, DRAFTING OF GODE GUARANTEE LANGUAGE. HE IS NOW WAITING FOR NEW YORK'S APPROVAL AND HOPES TO PRESENT PRELIMINARY OFFER TO ABU ISMAIL POSSIBLY AS EARLY AS SEPTEMBER 9. HE IS ALSO TRYING TO OBTAIN GODE'S WRITTEN AGREEMENT FOR EXCLUSIVE CHASE AUTHORITY FOR PROPOSED LOAN. ACCORDING TO RICHEY, TERMS OF LOAN WILL BE THREE YEARS GRACE AND FOUR-YEAR REPAYMENT PERIOD AT ONE AND ONE QUARTER PERCENT OVER FLOATING COMMERCIAL RATES (WHICH HE DESCRIBED AS ABOUT FIVE AND ONE-HALF PERCENT IN LONDON NOW). RICHEY'S CURRENT THINKING IS FOR ABOUT TEN-TWELVE LONDON-BASED BANK CONSORTIUM TO BE SET UP WITH EACH HAVING SHARE OF ABOUT \$20-25 MILLION. GODE GUARANTEE WILL BE ON BASIS UNDISBURSED CAPITALIZATION, NOT CASH COLLATERAL.

3. IN AN EFFORT TO SIMPLIFY PROCEDURES AND THEREFORE EXPEDITE THE PROCESSING OF LOAN FORMALITIES, RICHEY HAS OBTAINED GODE DESIGNATION OF CENTRAL BANK AS ORGANIZATION WHICH WILL MAKE DECISIONS FOR EGYPTIAN SIDE. SENIOR CENTRAL BANK OFFICIAL HAS BEEN DESIGNATED TO HANDLE CONTACTS WITH RICHEY. LIKEWISE, IN SAUDI ARABIA, MINISTER ABA AL-KHAIL DESIGNATED UNDERSECRETARY MANSUR TURKI TO BE SOLE POINT OF CONTACT BETWEEN GODE AND RICHEY. RICHEY POINTS OUT THAT THESE TWO CONTACTS MAY DO WHATEVER COORDINATING THEY FEEL NECESSARY, BUT HE INTENDS TO TALK ONLY TO THEM IN TERMS OF ARRANGING THE LOAN.

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PAGE 03 CAIRO 12097 081624Z

4. ASIDE FROM COMMERCIAL ASPECTS, RICHEY NOTED THAT SEVERAL FURTHER OBSTACLES REMAIN BEFORE LOAN CAN BE COMPLETED. EGYPTIANS MUST RATIFY GODE AGREEMENT SIGNED ON AUGUST 21. SAUDIS AND OTHER GODE MEMBERS MUST ACCEPT DRAFT GUARANTEE LANGUAGE AND EGYPTIANS MUST, OF COURSE, AGREE TO TERMS AS PROPOSED BY CHASE. RICHEY IS HOPEFUL THAT ENTIRE PROCESS COULD BE COMPLETED BY LATTER PART OF OCTOBER.

5. ABA AL-KHAIL REPORTEDLY TOLD RICHEY THAT DIRECT \$250 MILLION GODE LOAN WILL BE NEGOTIATED TO COMPLEMENT COMMERCIAL BANK LOAN. THERE WILL BE A SLIGHTLY LONGER GRACE PERIOD, ROUGHLY SAME INTERESTED RATE, AND PAYMENTS WILL BE STRUCTURED SO AS NOT TO INTERFERE WITH GOE REPAYMENT OF COMMERCIAL LOAN.

6. COMMENT: WITH \$500 MILLION IN NEW FUNDS APPARENTLY ASSURED, SOLUTION TO GOE'S 1976 BALANCE OF APYMENTS CRISIS APPEARS SUBSTANTIALY TO HAVE BEEN FOUND. ACCORDING TO RICHEY'S CALCUATIONS, EGYPTIANS WILL NEED TO RAISE ADDITIONAL \$300 MILLION FOR REMAINDER OF 1976 (GOE SAYS PUBLICLY TOTAL UNFIANCED BOP GAP IS LE 500 MILLION EQUIVALENT), BUT IT IS LIEKLY, NONETHELESS, THAT THESE TWO LOANS WILL EFFECTIVELY SALVAGE SITUATION FOR REST OF YEAR. RICHEY COMMENTED THAT ABA AL-KHAIL, AS LEADING FIGURE IN GODE, CONFIRMED THAT GODE IS PREPARED TO ASSIST SUBSTNAITALLY IN BOP FINANCING FOR EGYPT (AT RATE OF UP TO \$500 MILLION PER YEAR INLOANS OR GUARANTEES), AND DOWNGRADE PROJECT FINANCING FOR TIME BEING. NO RPT NO MENTION WAS MADE OF GOE COMMITMENT TO IMF REFORM PROGRAM OR OTHER PRECONDITIONS TO GUARANTEE (REF B).

7. RICHEY SAID HE THOUGHT SADAT'S QUICK VISIT TO SAUDI ARABIA IN AUGUST HELPED MOVE SITUATION FORWARD IN THIS REGARD. ABA AL-KHAIL REMAINS WARY, HOWEVER, OF EGYPT'S INTENTIONS AND WANTS CAREFULLY TO CONTROL BULK OF ASSISTANCE. RICHEY MENTIOND THAT SAUDIS HAD RECEIVED POOR IMPRESSION OF

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PAGE 04 CAIRO 12097 081624Z

PM MAMDOUH SALEM AND ABU ISMAIL WHEN THEY VISITED SAUDI ARABIA IN EARLY 1976 TO MAKE CASE FOR FURTHER ASSISTANCE. BECAUSE OF THEIR SINGULARLY INEPT PERFORMANCE, SAUDIS (READ ABA AL-KHAIL) WERE RELUCTANT FOR SEVERAL MONTHS TO DO ANYTHING FURTHER TO HELP EGYPT.

8. WHILE RICHEY IS OPTIMISTIC THAT ARRANGEMENTS FOR COMMERCIAL LOAN WILL PROCEED SMOOTHLY, SEVERAL STEPS WHICH MUST BE TAKEN BY GOE (AND GODE) OBVIOUSLY COULD STILL POSE POSSIBLE DELAYS. MERE FACT THAT LOAN BEING ARRANGED, HOWEVER, PROBABLY WILL BEGIN TO LEAK TO BANKING COMMUNITY AND COULD BE CRUCIAL FACTOR IN PREVENTING MAJOR FINANCIAL CRISIS FROM ARISING, HOPEFULLY FOR REMAINDER OF YEAR.

9. ABOVE ENCOURAGING INFORMATION IS REGARDED AS VERY SENSITIVE
UNTIL NECESSARY ARRANGEMENTS HAVE BEEN WORKED OUT.
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